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RUEHJB/AMEMBASSY BUJUMBURA PRIORITY 2416
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DEPT EB/TPP/ABT FOR T LERSTEN AND AF/E FOR B YODER
DEPT PASS TO MILLENNIUM CHALLENGE CORPORATION
ALSO TO COMMERCE/ITA/OTEXA M D'ANDREA
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TAGS: ECON ETRD KTEX TZ
SUBJECT: TANZANIA'S TEXTILES: THE CHALLENGE TO COMPETE

REF: STATE 138090

¶1. SUMMARY. Tanzania's textile industry faces not only increased global competition, but also critical domestic challenges including a lack of reliable power, rising oil prices and a significant depreciation ofits currency over the past year. Based on its Poverty Reduction Strategy Plan, the Government of Tanzania (GOT) has demonstrated its commitment to enhance Tanzania's overall competitiveness by improving the infrastructure network. Two specific GOT strategies pertaining to the textile industry are to revitalize Tanzania's Export Processing Zones (EPZs)and to maintain taxes on used-clothing in an effort to stimulate apparel production for the local market. The GOT does not appear ready to take measures against the import of cheap fabric, instead offering tax exemptions for woven fabric imported from India and China. While prospects for the textile sector may appear thread-bare in the face of daily power cuts, with sound investment policies, sustained infrastructure improvements and trade preference programs, Tanzania does show the potential to become competitive in the global textile market.
END SUMMARY.

2005 Textile Data

¶2. According to the Ministry of Industry and Trade (MIT), 2005 data on Tanzania's textile sector is as follows:

Total Industrial Production	USD 1,848,154,000
Total Textile Production	USD 93,638,000
Textile Exports to US (2005-06)	USD 5,373,697
Textile/Apparel Imports	USD 102,079,754
Textile/Apparel Exports	USD 153,473,692
Total Manufacturing Employment	88,713 persons
Total Textile/Apparel Employment	15,000 persons

Key Challenges to Competitiveness

¶3. Beyond international competition, high production cost is the biggest challenge facing Tanzania's textile industry. High production costs derive in large part from Tanzania's current energy crisis which emerged in late 2005. During 2006, January, May and June were the only three months in which Tanzania's Electricity Supply Company (TANESCO) did not undertake power rationing on the national grid. The rising cost of oil and the depreciation of the shilling against the dollar by approximately 17

percent from 2005 to 2006 (from Tsh 1,150 to 1,350), have further increased pressure on production costs in the textile and other industrial sectors. For small and medium-sized entrepreneurs, access to credit or start up capital is also an important barrier to entry.

¶4. According to the Confederation of Tanzanian Industries (CTI)and MIT, the U.S. and EU restrictions on certain exports of textiles and apparel from China have not affected export prospects for Tanzanian manufacturers. Nor has the GOT implemented safeguards or other measures to reduce the growth of imports of Chinese textile and apparel products. To the contrary, the GOT has provided tax waivers to textile mills importing woven fabrics from both China and India. In 2005,the Ministry of Finance (MOF) provided tax waivers on USD2.5 million dollars worth of woven fabric from China and India. The MOF's tax waivers benefited three companies: NIDA Textile Mill, Karibu Textile Mill and Friendship Textile Mill; the latter is a joint venture between Chinese and Tanzanian partners. (source:www.mof.go.tz/revenue/exemptionsbenef iciaries/sept05 /html).

Star Apparel Shuts Down, but New Investments Arrive
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¶5. In 2005, Star Apparel closed down and NIDA was on the verge of collapse. The closure of Star Apparel in March 2005 remains clouded with controversy. According to the MIT, the factory closed due to "misappropriation of funds" that led to the company failing to pay its employees' salaries on time. Strikes and "industrial unrest" ensued and the company, which is headquartered in Uganda, closed its nearly brand new operation in Tanzania. NIDA, a Pakistani textile company established in Tanzania in 2001,

has experienced major difficulties over the past several years, stopping production for several months in 2005 and operating far below production capacity in 2006. Claiming that it would not be able to continue operations, NIDA received an USD 18 million tax exemption on imported fabrics from the GOT. This tax exemption is part of a performance contract which NIDA has with the GOT, promising to increase employment from 500 to 2000 people.

¶6. In 2006, there have been significant new investments in the textile industry. Cami Apparel, for example, has invested in three new apparel factories in Dar es Salaam: Everfit Apparel, Cami Apparel and Cami Suma. The A-to-Z Textiles company, based in Arusha, has embarked on a multi-million dollar joint venture with a large Japanese firm, the Sumitono Chemicals Company. The new factory will focus on production of long lasting insecticide-treated mosquito nets. These new investments from Cami and A-to-Z are estimated to create 5,000 new jobs by 2007.

GOT Trying to Become Competitive

¶7. Under its National Vision 2025, Tanzania spells out both its commitment and strategy to become a semi-industrialized country by 2025. With its National Poverty Reduction Strategy Plan, the GOT has pinpointed infrastructure as a key priority area for stimulating economic growth and poverty reduction. The GOT's recent Millennium Challenge Account Compact proposal reflects the GOT's strategy to strengthen the infrastructure network with the goal to increase Tanzania's competitiveness, including in the industrial sector.

¶8. Regarding the textile and apparel sector in particular, the GOT appears to be undertaking two key measures. First, the Kikwete administration has attempted to revitalize the concept of Export Processing Zones (EPZ) and Special Economic Zones (SEZ) which were legally created by legislation in 2000, but which still lack the necessary infrastructure and administration to get off the ground. While misplaced,

another GOT strategy aims at levying significant taxes on used-clothing imports to stimulate domestic textile production for the local market. In 2005, the GOT placed 75 percent tariff on used clothing. In 2006, the GOT reduced the tariff to 45 percent but, to date, has resisted reducing the used-clothing tariff rate any further.

Trade Preferences Help Tanzania Compete: AGOA, EAC and SADC
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¶9. In 2005, Tanzania exported over USD 3 million worth of textiles to the U.S. market under the African Growth and Opportunity Act (AGOA). The Sunflag Textiles firm is responsible for nearly all of these exports. While AGOA has enabled Sunflag to compete in the U.S. market, other firms such as NIDA have struggled. In addition to high production costs, key challenges are to establish market linkages with U.S. buyers and to increase production capacity.

¶10. Tanzania is a member of both the East African Community (EAC)and the South African Development Community (SADC). Both the EAC and SADC provide a duty free market for trade in locally manufactured products, including textiles and apparel. Moreover, in 2006, the South African Customs Union (SACU) signed an agreement with the GOT, relaxing strict rules of origin to allow greater market access to Tanzanian textiles and apparel in the SACU market. While Tanzania's textile industry has yet to fully exploit these regional trading areas, the move toward integration represents important potential for the Tanzanian textile and apparel sector.

Comment: Key Is Infrastructure and Investment Climate
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¶11. Despite several challenges confronting its textile sector, there is no reason why Tanzania cannot become a stronger player in the global textile market. Leveraging trade preferences regionally and with the U.S. and Europe, Tanzania clearly has potential to increase textile exports both regionally and internationally. While AGOA and regional trade preferences do provide important threads to Tanzania's overall competitiveness, the make or break stitches will be sustained infrastructure advancements as well as business climate

improvements to ensure new investments grow and attract even more new investors. END COMMENT.
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